CFA Society India

INDIA INSIGHTS

Ideas Shaping Professions, Insights Driving Impact

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RESEARCH

WEALTH MANAGEMENT

ASSET MANAGEMENT

CAPITAL MARKETS

ADVOCACY WITH REGULATORS

CONTENTS

FOREWORD

Bull markets make most investing bets look smart. It is only when the tide turns that we know how these decisions fare. Undue rush and peer pressure (too) can inflict harm. Sanath's article in the latest edition of our Insights letter exemplifies this and other follies the best of investors are sometimes forced to make. The article is a good reminder that smart money investors do not have a magic wand and that this class of investors too can find themselves wrong footed. Indeed, as the article highlights: Smart money is smart at the point of entry, not necessarily at the point of exit.

Returns chasing looks cool but as the smart money article warns us, sustainability in returns is critical too. Investors must ask if managers delivering these returns are true to label - was it luck, skill or just momentum? Kshitiz's performance attribution note is a practitioners' primer on factor analysis.

Navneeth's piece on portfolio concentration takes us to the maths and the psychology behind all investing decisions. High Kurtosis asset class returns have inherent risks. Investment theses however, will have to balance the comfort of a home bias and the difficulties in choosing a diversification framework. Diversification is important but there are quantitative tools investors must embrace.

Our "Young manager" offers two insightful write-ups, both from highly successful, accomplished fund managers. The clarity, conviction and character these stories bring out, are both informative and inspiring.

The new Chart-o-Mania section has two informative charts, the second one may bring some cheer on the progress the world is making on renewable energy.

Have you been attending our new offering of a research webinar series? A few weeks back we debuted with Charles Ellis' famous paper – "The Loser's Game". Charles Ellis penned this paper in 1975 but the relevance and insights from the work have a timeless appeal. Kshitiz has brought these aspects out in a crisp and comprehensive note that highlights the engaging discussion in the research webinar. I urge members to not miss the next month's research webinar discussion.

Some of you may have noticed that our Insights newsletter has a different look and feel. I hope you like it. This is our first edition of the Insights letter where we have sought help from a professional editing agency. We are grateful to Shri. Sandeep Jain for graciously extending his team's help.

My colleagues and I hope that you find this edition of the newsletter engaging and useful, but do share feedback, in particular, ways to improve. Happy reading!

Shreenivas Kunte, CFA, Ph.D
Director, CFA Society India

THE ALPHA MIRAGE: WHY INDIAN WEALTH MANAGERS MUST ADOPT FACTOR ATTRIBUTION

Kshitiz Jain, CFA, *RASC Co-Chair*

High returns in Indian portfolios often masquerade as skill when they are merely leveraged bets on factors like Size or Momentum. The traditional metrics fail to distinguish genuine alpha from systematic risk, urging investors and wealth managers to adopt factor attribution to expose "closet indexing," detect style drift, and ensure investors aren't paying alpha fees for beta performance.

Consider this familiar narrative from 2023: A prominent PMS fund manager delivers 42% returns while the Nifty 50 limps along at 20%. The marketing pitch practically mentions "superior stock selection," "proprietary research edge," and "active management at its finest." Wealth managers queue up. High-net-worth clients pour capital in.

Then comes the reckoning. Strip away the performance veneer, and a different story emerges: 65% of the portfolio was concentrated in PSU stocks and small-cap industrials, precisely the segments that caught fire during the infrastructure push and defense modernization narrative. The manager wasn't generating alpha; he was riding a massive, factor beta wave.

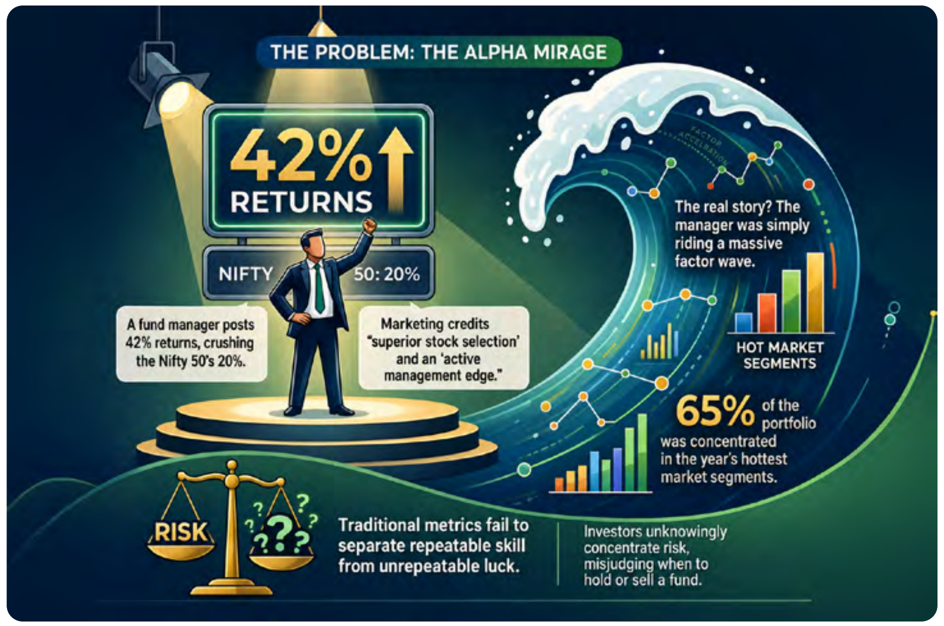
This isn't an indictment of the manager's returns, they're real. But it exposes a fundamental flaw in how Indian wealth managers evaluate active management. Traditional performance metrics i.e. Sharpe ratios, information ratios, even tracking error, fail to answer the most critical question: ***Is this outperformance repeatable skill, or unrepeatable luck amplified by factor exposure?***

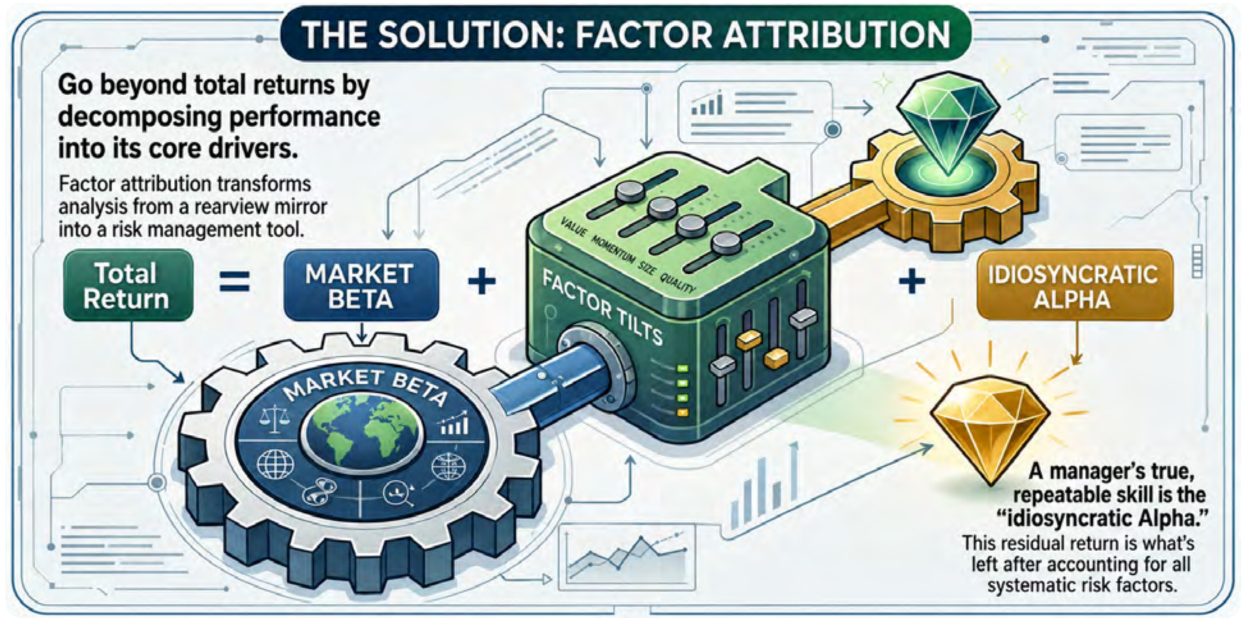
The consequences of this analytical blind spot are material. Investors unknowingly double down on concentrated factor risks. Wealth managers misjudge when to hold versus fold struggling mandates. And when factor winds reverse, as they inevitably do, capital flight and recriminations follow.

The solution lies not in more performance data, but in better performance decomposition. Factor attribution transforms performance analysis from a rearview mirror exercise into a forward-looking risk management framework.

By understanding the underlying drivers, investors can make more informed decisions about manager selection, portfolio construction, and risk management.

Beyond the Hype: Unmasking True Investment Alpha





Factor Analysis Demystified

*The evolution from CAPM's single-factor world to today's multi-factor frameworks represents more than academic refinement. It's a fundamental rethinking of how we decompose returns. Consider a typical Indian equity mutual fund that delivered 28% returns in 2024 against the Nifty 50's 20%. Traditional analysis stops at celebration. Factor attribution asks: **what drove that 800 basis points of outperformance?***

The framework decomposes total return into three components

MARKET BETA × **MARKET RETURN** + **FACTOR TILTS** × **FACTOR PREMIUMS** + **IDIOSYNCRATIC ALPHA**

This deconstruction cleanly separates the portion of returns attributable to systematic factor exposures from the residual—the manager's true, idiosyncratic alpha. Anything else is simply a return for bearing systematic risk.

In practice, this means regressing the fund's excess returns against established factor proxies: Value, Momentum, Quality, Low Volatility, and Size.

Deconstructing "Alpha"

Take a mid-cap fund that outperformed its benchmark by 12% in 2023. Factor regression reveals:

+6.5% SIZE FACTOR (SMALL-CAP TILT)	+3.8% MOMENTUM FACTOR
+0.8% STOCK SELECTION ALPHA	+0.9% QUALITY FACTOR

***The uncomfortable truth:** Only 0.8% came from genuine stock-picking skill. The rest can be attributed to Systematic factor betas.*

This isn't to diminish the returns, they're real money in client accounts. But it fundamentally changes the conversation. That "alpha" comes with embedded factor risks. When momentum reverses or small-caps correct, the fund will likely suffer disproportionately. The conversation and decision now would be to understand, if the manager discovered a repeatable edge or has loaded up on rewarded risk factors.

***The implication for wealth managers:** You're not choosing between "active" and "passive." You're choosing how to source your factor exposures, through expensive active vehicles with hidden factor tilts, or through transparent, lower-cost factor strategies with explicit risk profiles.*

The Indian Landscape

India's regulatory architecture creates three distinct playing fields, each with unique attribution challenges. Understanding these differences is critical for wealth managers navigating product selection.

SEBI's categorization framework, mandating specific market-cap exposures, inadvertently encourages "closet indexing." Factor attribution exposes this cleanly. When a large-cap fund's returns can be 85% explained by market beta and size factors alone, investors are essentially paying 1.5-2% expense ratios for index performance. The regulatory solution isn't more categories, it's mandatory factor disclosure in monthly factsheets.

The tell-tale sign: *A fund with consistently high R-squared (>0.90) to its benchmark plus minimal idiosyncratic volatility. That's not active management; that's expensive beta with narrative overlay.*

A recent working paper on Indian multifactor strategies revealed a critical finding: a majority of the surveyed strategies showed no statistically significant evidence of either multifactor exposure or alpha. In other words, funds marketed as "multifactor" were not delivering on their promise; their returns were not demonstrably driven by the combination of factors they claimed to target.

Multiple funds are launched with a similar value proposition: *genuine alpha through differentiated stock selection. The reality often differs. Consider the 2023 playbook: Power Finance Corporation and REC surged 241% and 252% respectively, while railway financier IRFC climbed 197%. The fund managers loading up on PSU stocks weren't displaying stock-picking genius, they were riding a massive government capex and "Make in India" narrative wave.*

When that factor reverses, as PSU stocks did in mid-2024, the performance suffers. This can be an even bigger problem for concentrated portfolios in PMS and AIFs. Sustainable outperformance requires separating fundamental stock selection from factor timing, something attribution analysis makes explicit.

Wealth Managers: Detecting Style Drift

Factor attribution transforms wealth management from reactive (analyzing past returns) to proactive (monitoring evolving risk exposures). The most powerful application: detecting style drift before it becomes a performance problem.

The true value of a professional wealth manager lies not in their ability to pick last year's top-performing fund, but in their capacity to rigorously audit a fund manager's process. Their mandate is to ensure that a manager's strategy is consistent, true-to-label, and aligned with the client's long-term objectives, regardless of short-term market noise. Factor attribution is the most powerful diagnostic tool available for this task, particularly for detecting "style drift."

The Style Drift Mechanism

Consider a "Value" manager with a decade-long track record. Factor attribution in 2022-2023 shows:

- Value factor loading: 0.85 (high, consistent with mandate)
- Momentum factor loading: 0.12 (low, as expected)
- Quality factor loading: 0.31 (moderate)

By mid-2024, the picture shifts:

- Value factor loading: 0.43 (halved)
- Momentum factor loading: 0.67 (quintupled)
- Quality factor loading: 0.19 (declined)

The diagnosis: *The manager, struggling with value's underperformance, has drifted into momentum stocks to chase near-term returns. This isn't "adaptive" portfolio management, it's process breakdown disguised as flexibility.*

The Critical Decision Framework

Factor attribution clarifies the hold-versus-fire decision

Scenario 1: Factor Out of Favor (HOLD)

- Manager maintains consistent factor loadings
- Underperformance coincides with factor-wide weakness
- Portfolio construction process remains intact
- **Action:** Communicate factor cyclicality to clients, maintain allocation

During the challenging period between September 2024 and March 2025, Nifty200 Momentum 30 fell 31.25% while Nifty100 Low Volatility 30 declined just 17.52%, a stark reminder of factor cyclicality. A momentum manager underperforming during this period hasn't necessarily lost his edge.

Scenario 2: Process Breakdown (FIRE)

- Factor loadings diverge significantly from stated mandate
- Underperformance persists even as manager's supposed factor outperforms
- Portfolio turnover spikes, suggesting reactive rather than conviction-driven trading
- **Action:** Exit. The manager has abandoned the process that justified the initial allocation

Scenario 3: Market Environment Shift (REASSESS)

- All managers in the category show similar factor drift
- Regulatory or structural market changes reward different characteristics
- Client's portfolio lacks exposure to newly-rewarded factors
- **Action:** Strategic review. Consider whether the factor exposure, not the manager needs to change

Governance & The Regulatory Path Forward

India's wealth management industry stands at an inflection point. Factor-based fund AUM grew 450% in two years, demonstrating investor appetite for systematic strategies. Yet attribution standards lag product innovation.

For the Indian asset management industry to mature and earn the deeper trust of investors, a significant leap in governance and transparency is required. Investors need reliable, standardized information to make truly informed decisions, a responsibility that falls squarely on the shoulders of regulators like the Securities and Exchange Board of India (SEBI) and the Asset Management Companies (AMCs) themselves. Based on the documented gaps between fund marketing and reality, several concrete recommendations emerge.

Mandate Standardized Factor Exposure Reporting: *A crucial first step is to require all fund factsheets and official disclosure documents to report a fund's loadings on key, academically-grounded factors (e.g., Value, Momentum, Quality, Size, and Low Volatility). Just as funds report their market beta, they should report their sensitivity to these other systematic drivers of return. This single change would demystify fund strategies and empower wealth managers to conduct meaningful due diligence.*

Current PMS and AIF regulations mandate quarterly performance reporting but lack standardized attribution frameworks. Standardized factor exposure table to be included in performance attribution is the way forward.

Establish Appropriate Benchmarks: *Comparing a multifactor or single-factor fund to a generic market-cap-weighted index like the Nifty 50 or S&P BSE 200 is often inadequate and misleading. A value fund should be judged against a value benchmark, and a multifactor fund against a multifactor benchmark. SEBI and industry bodies should encourage the creation and adoption of such benchmarks to allow for a more meaningful "apples-to-apples" evaluation of whether a fund is delivering on its specific objectives.*

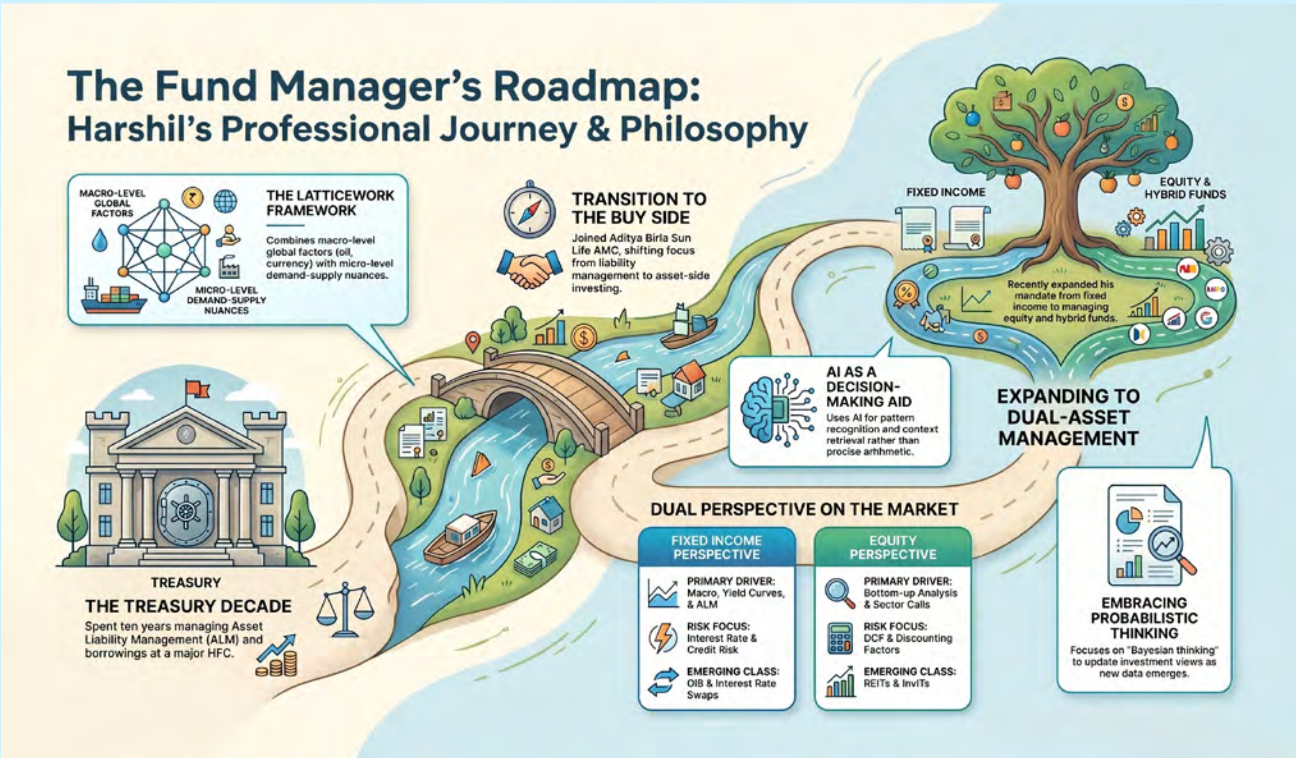
Global Context & Conclusion

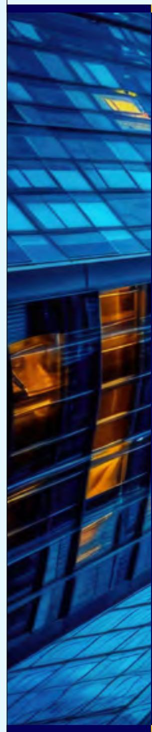
In developed markets, factor models are embedded in performance evaluation and risk reporting across asset managers, institutional allocators, and regulators. Morningstar's Style Box, effectively a factor classification tool, appears in every fund analysis. Returns-based style analysis is table stakes, not innovation.

India's adoption, while growing, remains nascent. Rather than spend a decade learning expensive lessons, regulators and industry participants can mandate transparency standards now, before factor-blind allocation decisions accumulate into systemic risk.

As India's asset management industry matures, embracing factor attribution is not an option; it is imperative. It elevates performance evaluation from storytelling to science, strengthens governance, empowers allocators, and ultimately differentiates true alpha from the mirage of beta.

THE YOUNG MANAGER SERIES: A CONVERSATION WITH HARSHIL SUVARNKAR





HARSHIL SUVARNKAR

Fund Manager at Aditya Birla Sun Life AMC.

For the second episode of our Young Manager series, we had Harshil Suvarnkar, Fund Manager at Aditya Birla Sun Life AMC. Harshil brings a highly unique, dual-sided perspective to the table. After graduating from JBIMS with a Master's in Finance and a Diploma in securities law, he spent a decade on the asset-liability management side in the treasury of a major housing finance company. Today, he sits on the buy side, managing fixed-income portfolios, and has recently expanded his mandate toward equities.

The goal of the Young Manager Series is to look beyond the normal market conversations, which typically focus on market performance and outlooks, and instead focus on the fund manager - their philosophy and their journey. We hope to gather insights for young managers, young graduates starting their CFA journey, or anyone looking to make their space in the asset management world.

As practitioners in the debt market, we often get caught up in the daily noise of yield curves and macros. In this discussion, we are stepping away from that to focus on something more fundamental: the journey, the philosophy, and the hard-earned lessons of managing money.

EARLY BEGINNINGS: THE PATH TO FINANCE AND FIXED INCOME

KSHITIZ

Q

Growing up and eventually moving through JBIMS to secure a degree in finance, how did your initial interest in finance take root? Most young students get captivated by the equity markets because that is where the noise is. How did you eventually decide to join the more mathematically rigorous fixed-income side of the world?

HARSHIL

A

While my graduation happened at Sydenham College in South Bombay, where I did my Bachelor's in Commerce, my bent was always towards finance. Even as a young person, I used to manage my household banking and help my father with his investments. As a personality, I always wanted to learn new things and keep exploring a wide variety of subjects. During my graduation, I tried my hand at event management, acquiring technical skills and running large-scale events, and I also completed an advanced diploma in foreign trade, which exposed me to the nuances of the financial system.

Investing and finance naturally gel with my personality because the learning phase never ends. Once I got into my MBA, I realized that investing requires you to know about a wide variety of things to make the right decisions regarding asset allocation and macros. Later, I did my internship at HSBC, where I was responsible for making a peer review model that compared various banking metrics. That model was actually requested by HSBC years later to compare their performance with other banks. Going deeper into the banking sector ingrained in my mind that corporate finance and investing were the paths I wanted to take. In my first year, I was also exposed to Aswath Damodaran's valuation videos from NYU Stern, which helped everything come together.

Even as a young person, I used to manage my household banking and help my father with his investments. As a personality, I always wanted to learn new things and keep exploring a wide variety of subjects.

FROM LIABILITIES TO ASSETS: THE ALM TREASURY EXPERIENCE

KSHITIZ

Q

You spent almost a decade in the treasury on the ALM and capital market borrowing side at a finance company. How did starting your career on the liability and fundraising side shape the way you look at asset investing today? Was there anything you had to unlearn or relearn while transitioning to managing money on the asset side?

HARSHIL

A

The great part about where I worked was that the borrowing and investment functions were eventually merged. Initially, I was only running the borrowing program, but after I analyzed our data and suggested a more optimal way of investing, management gave our team both functions.

When you manage both borrowings and investments, you interact heavily with the buy side, the sell side, intermediaries, and law firms. You gain an intimate understanding of how the buy side operates because they service you. Plus, when borrowing for a large housing finance company that lends on a floating-rate basis but borrows on a fixed rate, you must hedge using interest rate derivatives and swaps. This gave me immense exposure to managing interest rate risk and navigating the OIS (Overnight Indexed Swap) market.

When I transitioned to an AMC, it was a very smooth process because I already had experience making calls on short-term versus long-term debt and selecting the right curve. The main adjustment was formalizing all of those learnings into a strict buy-side investment framework and analyzing things much more granularly.

When I transitioned to an AMC, it was a very smooth process because I already had experience making calls on short-term versus long-term debt and selecting the right curve.

INVESTMENT PHILOSOPHY:
UNCONVENTIONAL METRICS BEYOND DURATION

KSHITIZ

Q

Let's dive deeper into your investment philosophy. In fixed-income investing, everyone looks at standard consensus variables like duration, credit quality, and the yield curve. Beyond those, what are the unconventional underlying factors that the broader market misses, but which play a key role in your strategy?

HARSHIL

A

Generally, people view duration merely as a decision to increase or decrease exposure. However, fixed income is incredibly nuanced; you need to select the exact right point on the curve. Duration is a form of convex macro risk, not merely a hedge, and its payoff depends heavily on your positioning regarding inflation, fiscal policy, and liquidity.

You have to analyze macro and micro factors together. It is vital to use a lattice framework where you layer two or three elements on top of each other. Fixed-income markets are heavily demand-and-supply driven. The "elephant in the room" is often the Reserve Bank buying or selling, which itself depends on external liquidity factors. You also have to track state fiscal performance; if populism rises in a state and they borrow heavily, you might face a 10-basis-point loss on the spread and find yourself unable to sell your stock.

Selecting the right curve is essential. Running a 1-year and 10-year barbell strategy versus a plain 3-to-5-year bond strategy can be the defining difference between winning and losing against the competition. Opportunities evolve constantly, whether through global macro shifts or U.S. political changes. Knowing exactly what is underpriced and overpriced, especially on overnight index swaps, helps you generate alpha.

> *Duration is like a form of convex macro risk, and it's not merely a hedge. The payoff will depend upon where you are positioned, how your inflation, fiscal, and liquidity call goes.*

KSHITIZ

Q

How much do global macros impact India's fixed income? Are we predominantly defined by domestic factors, or do global markets rule the movements?

HARSHIL

A

While India is less dependent on Foreign Portfolio Investors (FPIs) in fixed income, making the domestic market crucial, oil and currency are our two ruling pieces. Since India is a massive importer, rising oil prices throw our balance of payments (BOP) and FX out of balance. If the RBI has to intervene in the currency market, you suddenly have a domestic liquidity problem. Everything is intertwined. You might think of it as a purely domestic demand-supply issue, but if global oil prices spike, the OIS market sells off, and people lose confidence. You must look at India from a micro perspective, but the macro perspective must remain global. Oil and currency are the two most important things you need to get right.

EXPANDING HORIZONS: APPLYING MACRO FRAMEWORKS TO EQUITIES

KSHITIZ

Q

Moving on, you recently started managing an equity fund. How does your fixed-income experience uniquely help you analyze the equity side differently than a traditional equity fund manager?

HARSHIL

A

The best part about fixed income is that it requires a deep understanding of macros. If you apply that macro framework to equity, you can create a highly effective strategy. When I started managing equity, our philosophy became a blend of both bottom-up and top-down approaches.

From a top-down perspective, tracking GDP, fiscal metrics, and liquidity gives you a strong hold on how banking margins will move. Interest rates are the single most important factor defining your Discounted Cash Flow (DCF) models. If you get the discounting factor right, half the game is won. Analyzing whether interest rates, capex, and the commodity cycle are favorable helps you arrive at accurate sectoral calls.

Having worked in fixed income, you also develop strong credit insights. You have likely interacted with the management of the companies you are analyzing, which aids in selecting the best individual companies bottom-up. Lastly, understanding both fixed income and equity allows you to take very well-informed calls on REITs and InvITs, which are emerging hybrid asset classes.

KSHITIZ

Q

Does a young analyst need to be an "AI native" to grow in the industry today? What is your view on utilizing AI?

HARSHIL

A

AI is definitely shaping how we view things, but it is important to understand its limitations. An AI is essentially a language learning model; it gives you the next best word based on probabilities derived from the internet. If I say, "The best investors think long term and ignore...", AI will probabilistically fill in "short term".

However, applying logic to pure numbers is not AI's strong suit. If you ask it a complex arithmetic problem, it will not calculate it; it will search the internet for the nearest matching table. AI is incredible at pattern completion, analogies, summaries, and context retrieval, but weak at spatial reasoning and precise math.

Think about how chess evolved: computers beat humans, and now humans use those same computers to train and improve their game. Humans do not have the assimilation capacity to process massive amounts of data instantly, so we use AI to find inferences and connect language-based data. We have even developed internal AI tools to analyze our past research and track how our decisions influenced the future. For young analysts, it is vital to embrace these tools and learn proper prompt engineering, rather than just treating it like a Google search. AI is an efficiency tool that enhances what we do.

> *Applying logic to numbers is not AI's [strength]... AI is very good at pattern completion, analogy, summary, and context retrieval. We cannot use AI for numbers... it's very important to embrace these tools and learn to use them rightly, not just use them as Google.*

HARD-EARNED LESSONS: NAVIGATING CRISES AND BEHAVIORAL BIASES

KSHITIZ

Q *Getting back to your journey, you have been in financial markets for over 15 years. Fixed-income markets can be unforgiving, with credit events acting as zero-to-one scenarios. Can you share a misjudgment you made early in your career that ingrained a valuable lesson in you?*

HARSHIL

A *In 2013, about three years into my investing career, rates were low, but we figured out inflation was rising and the BOP was an issue. The RBI ultimately raised rates by 320 basis points. At that time, we exited 60% of our portfolio. In hindsight, if we had true conviction in our call, we should have fully reduced our duration instead of taking the call half-heartedly.*

My boss at the time was highly supportive. I called him at 8:00 AM on the day of a market frenzy, and he simply told me, "Go ahead and sell. You've made profits; a small loss is not going to make a difference." As humans, we suffer from loss aversion. We do not like selling something at a loss, even when we recognize the opportunity cost. My biggest learning was that if you have conviction, you must go ahead with the call and overcome your own behavioral biases. Investing is ultimately about knowing yourself better and remaining as neutral as possible.

> *If you get something right and if you have conviction, then you should take the call fully and you should not take it half heartedly... In the end, investing is all about knowing yourself much better and being able to take much better decisions.*

MENTAL MODELS: STRESS TESTING, PHILOSOPHY, AND READING HABITS

KSHITIZ

Q *Continuous learning is the soul of fund management. What books or philosophies have profoundly impacted you that a young analyst should read?*

HARSHIL

A *Before books, I'll share a philosophical instance. I used to be a solo skydiver. During my initial training, my trainer asked if I was scared. When I said I was a little bit scared, he replied, "That's good. If you weren't scared, you wouldn't have checked your backpack and your gear." That perfectly connects to investing: you need to stress-test your assumptions, carefully size your positions, and know exactly when to cut losses before you jump.*

I was also deeply influenced by my time at ISKCON. The Bhagavad Gita teaches you how to remain calm and serene in a crisis—it was written during a war, after all. The concept of Nishkama Karma teaches you to do your best without fixating on the fruit of your labor. If you obsess over achieving a specific return number, it might not transpire; you must focus on optimizing the journey. The best investor is someone who can take the exact same analytical call during both a bull and a bear market.

MENTAL MODELS: STRESS TESTING, PHILOSOPHY, AND READING HABITS

REGARDING BOOKS, HARSHIL HIGHLY RECOMMEND

1. *Thinking, Fast and Slow by Daniel Kahneman. It teaches you when to use fast, emotional System 1 thinking, and slow, analytical System 2 thinking. Fund managers must build processes to engage System 2 and eliminate System 1.*

2. *What I Learned About Investing from Darwin by Pulak Prasad. He brilliantly connects biology with investing, highlighting that survival of the fittest applies to investing in high-quality, growing companies and cutting losses.*

3. *Expectations Investing by Michael Mauboussin. This is essential for understanding Bayesian thinking. You cannot rely on one-point forecasts; you must think probabilistically. Understanding how your conditional probabilities change as new information arrives-like geopolitical shifts-helps you book profits or cut losses in advance.*

4. *Booms, Busts, and Market Cycles by Maneesh Dangi. His philosophical frameworks blend Indian tradition with probabilistic thinking, reminding us that investing is largely about understanding oneself.*

DAILY ROUTINE: CONTINUOUS LEARNING AND AVOIDING DISTRACTIONS

KSHITIZ

Q *You have covered so much ground. For my final question, what does your typical day look like, and how do you keep yourself mentally and physically ready for such a tough profession?*

HARSHIL

A *Outside of work, I have recently caught the bug for functional medicine and longevity nutrition, so I spend time reading and helping people with that.*

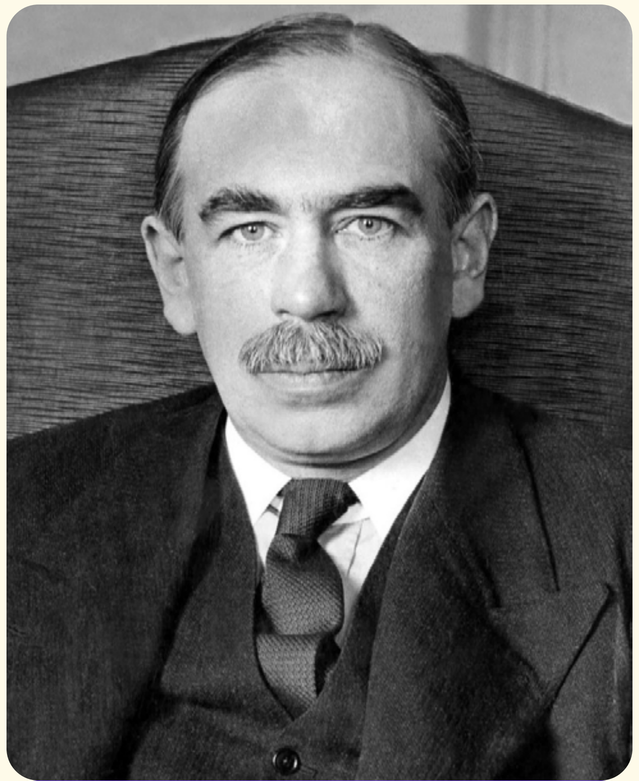
Before the market opens, I spend at least an hour reading global news, sell-side reports, and analyzing market movements. On my commute to and from the office, I use the time to read memos, notes, or books. I dedicate about 45 minutes a day to fitness, like walking or going to the gym, followed by time with my family. Just before sleeping, I read for another 30 to 45 minutes. Reading is a compounding factor; when an author condenses 25 years of experience into 400 pages, consuming it allows you to compound your own knowledge.

Lastly, I strictly avoid social media distractions. I am not on most platforms, and even on Twitter or YouTube, I carefully curate my feed and avoid recommendation algorithms. Social media tends to show you what you already want to see, which reinforces your biases rather than showing you opposing views.

> *Reading is a compounding factor... Somebody would have written that book with 25 years of experience. He's giving you 25 years in 400 pages, so why don't you consume it and compound yourself.*

IS SMART MONEY REALLY SMART? A BEHAVIOURAL PERSPECTIVE

Sanath, *Research and Investment Analyst at TresVista*



The idea of smart money implies that there is a class of investors in the market who have scale, are informed and disciplined in their trades; following their footprints would be safe. The logic is that if the informed big players are moving in a direction, it is rational to align one's portfolio with them.

The premise behind smart money is compelling. There is a persistent belief in financial markets that some investors are systematically better than others. Institutional investors, proprietary trading desks and foreign portfolio investors have significant influence in the markets. They do, at times, identify opportunities early and deploy capital with conviction. But markets have a way of turning good ideas into fragile structures. A trade that begins as informed positioning can, over time, become crowded, leveraged and increasingly dependent on liquidity conditions rather than underlying fundamentals.

The most interesting market failures are rarely caused by one bad idea. They are usually caused by a good idea that becomes too popular, too leveraged, too liquid on the way in and too illiquid on the way out. Between 2023 and 2024, the Indian markets offered several such episodes. Examined closely, they suggest that the concept of smart money is not wrong, but conditional.

> ***The market can remain irrational longer than you can remain solvent.***
>
> John Maynard Keynes

A Conglomerate Crisis

In January 2023, a US-based short-seller published a report on one of India's largest infrastructure and energy conglomerates, alleging stock manipulation and accounting fraud across its listed entities. Within two weeks, the group had shed approximately $140 billion in combined market capitalisation.

On the surface, it may appear as a short-seller-versus-conglomerate dispute, but the more instructive story was what happened to the institutional investors who had built large positions in the group's stocks. Their behaviour during the crisis made it significantly worse than the report's allegations alone would have warranted. One of the largest institutional investors, had a total exposure (equity and debt) to the group of about ₹36,000 crore. Multiple large mutual funds held positions in the group's stocks. Banks held significant loan exposure collateralised in part by the same securities, which were falling 20-40 per cent daily.

Promoter share pledging had been part of the group's financing structure, but as prices declined following the report, the group proactively prepaid loans and released pledged shares. This suggests an effort to prevent forced deleveraging rather than evidence of widespread margin-call-driven liquidation in public markets. That said, a reflexive dynamic was still present. The sharp price decline weakened investor confidence, tightened funding conditions and increased perceived risk, in turn generating additional selling pressure. In this sense, price declines were not only reflecting new information but also actively shaping market behaviour and liquidity conditions.

Small-caps: When Success Creates Fragility

Now consider the second case. In 2023, India's small- and mid-cap stocks posted extraordinary gains. The Nifty Small-cap 250 rose about 60 per cent that year, while the Nifty Mid-cap 150 gained around 46 per cent. The early phase of that move was not irrational. India had a real capex cycle, manufacturing activity was improving and domestic industrial names were beginning to re-rate on earnings momentum.

But the market did what markets do when a legitimate theme performs too well. It attracted substantial inflows. Capital came through mutual funds, systematic investment plans and thematic equity funds targeting the same momentum. By late 2023, small-cap and mid-cap mutual fund inflows had increased materially, and many investors were buying not because they had formed a view on earnings quality or liquidity, but because recent returns had made the investment look safe.

Small-cap funds are open-ended vehicles that offer daily liquidity but hold securities that can take days or weeks to liquidate without

materially moving the market. The Securities and Exchange Board of India (SEBI) forced that issue into the open in 2024 by requiring stress tests from mid- and small-cap funds. Some of the largest funds disclosed that it would take multiple trading days to sell just a fraction of their portfolios under normal market volumes; in some cases, the liquidation horizon for 50 per cent of small-cap holdings stretched upwards of twenty-five trading days.

Illiquid assets can be held in a daily-dealing structure, but only so long as redemptions are modest and sentiment is stable. The danger appears when the cycle turns. Redemptions rarely arrive when liquidity is abundant. They arrive when prices are falling, and investors are nervous. At that point, the fund becomes a forced seller. It sells the stocks that can be sold, not necessarily the ones that should be. That means the most liquid holdings are often sold first, which can transmit stress across unrelated positions.

It was not simply that institutions bought the wrong stocks. It that a correct original signal attracted so much capital that it eroded its own structural foundations. Many early institutional buyers were probably correct on the macro thesis and reasonably early on valuations. But once crowding began, the edge began to erode, and by the time the market realised liquidity was the constraint, the trade had already become too large to exit cleanly.

This episode illustrates how 'smart money' can identify a genuine theme and still create an unstable market structure around it. In the short run, success can be self-defeating. The better the trade performs, the more people own it. The more people own it, the less differentiated it becomes.

Foreign Institutional Investors (FIIs) Exits: Signal Misread as Intelligence

Consider a third case of the FIIs' sell-off in October 2024. In that month alone, FIIs sold a net ₹94,017 crore of Indian equities. This was the largest single-month FII outflow on record at the time. The Nifty 50 fell from approximately 26,000 to below 24,000 over the subsequent weeks, and mid- and small-cap stocks declined more sharply. Did the FIIs know something? Or rather, their repositioning had less to do with India-specific fundamentals than with global portfolio dynamics.

The backdrop included a sharp rotation toward Chinese equities after Beijing's stimulus announcements, a stronger dollar, higher US Treasury yields and rising hedging costs for dollar-based investors. Those factors made Indian equities less attractive within global emerging-market portfolios, even if India's domestic fundamentals remained intact. A foreign fund selling Indian stocks is not necessarily making a bearish call on India Inc. earnings. It may simply be reallocating risk

within a fixed benchmark budget. If China looks cheaper and US rates are rising, a portfolio manager may reduce Indian stock holdings to rebalance the portfolio.

Domestic institutions understood that better than retail investors did. Domestic Institutional Investors (DIIs) continued to buy into the sell-off, helping absorb part of the pressure. This episode is a reminder that flows can matter more than news in the short term. When global funds reduce exposure at scale, prices can move far enough to trigger more selling by trend-followers, systematic strategies and risk-control models. Once again, the initial move is not necessarily informational. It becomes informational only after other market participants start treating it that way.

Conclusion

Across all three episodes, the failure of the smart money narrative follows the same underlying sequence:

INFORMED POSITIONING → **RETURNS** → **ATTENTION** → **MORE CAPITAL** → **CONSENSUS CROWDING**

For a practitioner, the operational implication is straightforward: the relevant question about any institutional signal is not what it says but when in its lifecycle you are observing it. Early-phase institutional positioning, before broad visibility, carries genuine information. Late-phase positioning, after crowding has set in, is no longer a signal.

Smart money is a temporary condition. It is usually smart at the point of entry, but not always at the point of exit. Entry is about information. Exit is about structure. Once a position becomes crowded, being right is necessary but not sufficient. The question that matters, at that point, is whether there is someone to sell to.

CHART-O-MANIA - 2 CHARTS

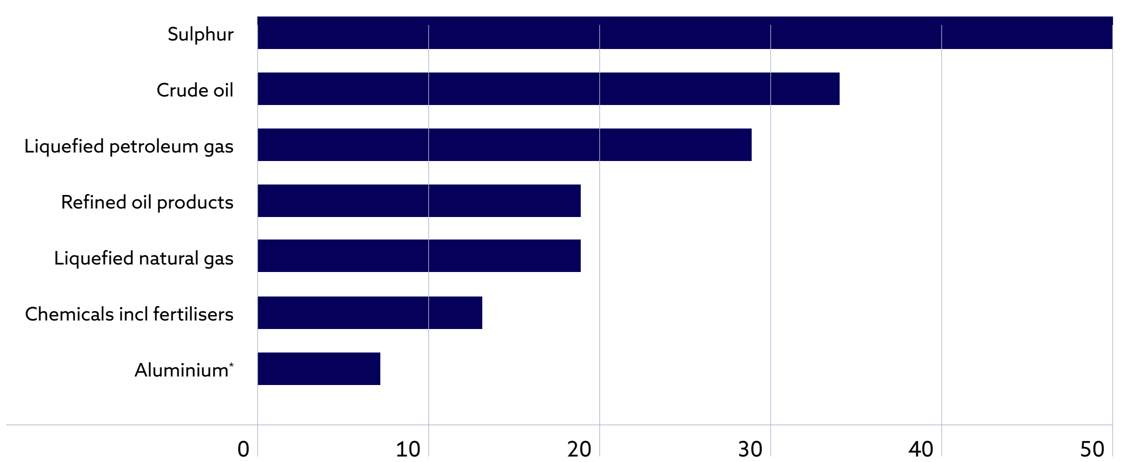
Pulkit Narang, CFA, *RASC Volunteer* | **Kshitiz Jain, CFA,** *RASC Co-Chair*

CHART 1

It is not just about the oil. This is a chokepoint of the world economy.

The Strait of Hormuz is a chokepoint for trade in commodities

Share of global seaborne trade volume passing through the strait (%)

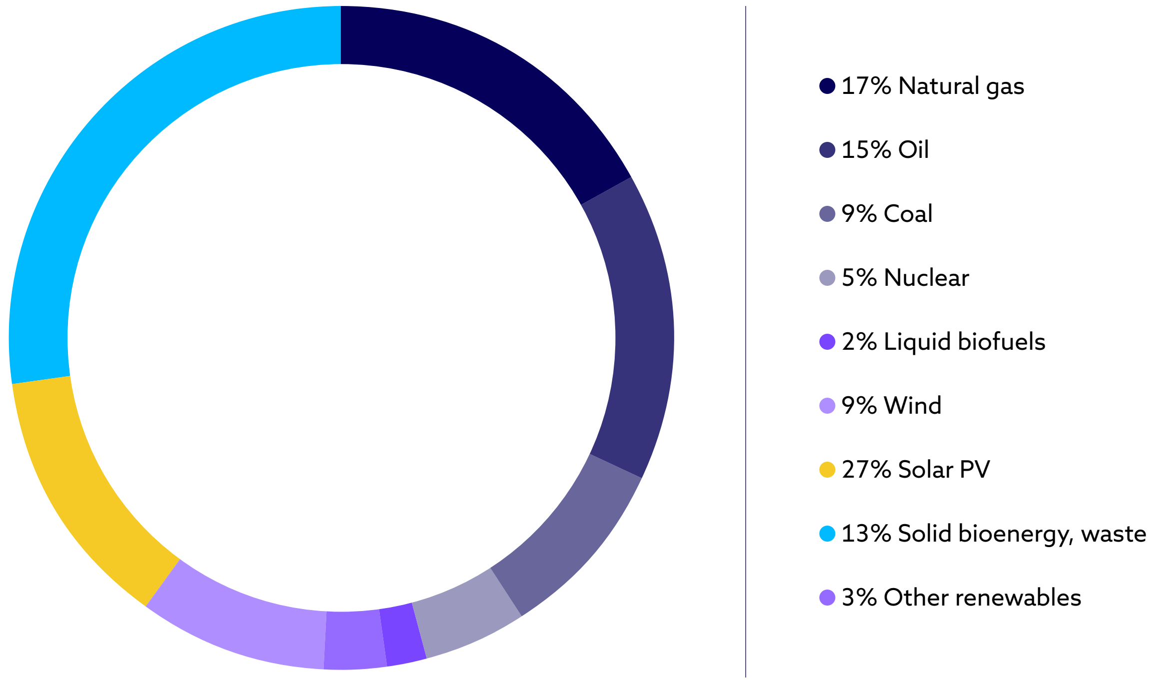


*Share of global production | Sources: Bloomberg, Fastmarkets, IEA, Uncrad, World Bank

50 per cent of the world's seaborne trade in sulphur passes through the Strait of Hormuz. So does 34 per cent of trade in crude oil, 29 per cent of liquefied petroleum gas, 19 per cent of liquefied natural gas, 19 per cent of refined oil products, 13 per cent of chemicals, including fertilisers, and nearly 10 per cent of aluminium.

CHART 2

2025 was the first year that a modern renewable source contributed the largest share of global energy demand growth



All energy sources contributed to meeting global energy demand growth in 2025, with solar PV and natural gas leading the way. Growth in solar PV met more than one-quarter of global primary energy demand growth, the first time on record that a modern renewable source contributed the largest share of the growth in global energy demand. Natural gas followed, meeting around 17% of global demand growth. Oil contributed around 15%, followed by solid bioenergy and waste. Coal demand growth slowed, due to declines in China and India. In all, low-emissions sources contributed nearly 60% of total energy demand growth.

This was despite almost no growth in hydropower due to poor hydrological conditions in some major regions.

THE YOUNG MANAGER SERIES:

KUNAL'S JOURNEY THROUGH THE ASSET MANAGEMENT INDUSTRY

KUNAL SABNIS

Portfolio Manager, Nine Rivers Capital

In this episode of Young Manager Series, Kshitiz talks with Kunal Sabnis. Kunal brings over 17 years of multifaceted experience across financial markets. What makes his perspective particularly valuable is his unique trajectory—starting from looking at broken balance sheets at an Asset Reconstruction Company (ARC), working as a sell-side analyst, and now fully transitioning to the buy-side managing midcap equities at Nine Rivers Capital.

EARLY INFLUENCES AND THE "BEST MISTAKE"

KSHITIZ

Q

To start, let's look back at your growing-up years. When were you first influenced by finance? Was it through family, colleagues, or during your education?

KUNAL

A

I was born and brought up in Mumbai, but my family had absolutely no connection to equity investing. My father is an engineer, and as a child, I also wanted to be an engineer. Most of the friends I grew up with eventually became engineers; even today, I am their single point of contact for all investments because I am the only one in this line of work.

In the ninth or tenth standard, I realized science was not my calling, so I switched to commerce. Accounting, economics, and analyzing financial statements came naturally to me, though I knew I didn't want to stick strictly to audit and accounting, which ruled out becoming a CA. Till I was about 23 or 24, during my MBA, I had no clue what I wanted to do in life.

KUNAL

A

However, during my MBA, we witnessed the crazy 2004–2007 equity rally. I had a close friend who was absolutely killing it in the market, which heavily influenced me. I thought it was easy money. My father had saved some money for my MBA, but I took a bank loan for my studies instead and convinced him to let me invest the saved cash. Historically, the worst time to start investing was December 2007—which is exactly when I started. Within six months, my portfolio was down 50%. I tried everything from options to futures, and while I enjoyed the process, I was losing heavily.

My father and I used the same broker. When my father went to him and asked what was happening, the broker told my father that, I wasn't paying heed to broker's warnings. My father immediately closed the account, took the remaining check, and told me to just spend whatever was left rather than blowing it up in the market. That hurt me deeply. I realized I had to learn the tricks of the trade, at least to recover that money. That was the single best mistake of my life. It got me into this field, and looking back, I wouldn't have chosen any other path.

The worst point to start investing was December 2007, and that's when I started... That was the single best mistake I did in my life. It got me into this field, and looking back, "I don't think I would have done anything else."

LESSONS FROM DISTRESSED DEBT: THE DANGERS OF LEVERAGE

KSHITIZ

Q

I want to pick your brain about your early journey dealing with non-performing loans. It is a very different world looking at businesses where the "music has stopped." Did you embed any learnings from that period into your current investment philosophy?

KUNAL

A

I worked there for a brief period, and I quickly realized the work wasn't my calling because it was more legal than financial. By the time non-performing assets reached the ARC, the banks had completely sucked the juice out of them, leaving us with land banks and a host of legal cases.

However, it helped me become a banking analyst later because I understood the recovery and deal-making side. The most important lesson I took away—which still stays with me today—is that a corporate mishap cannot happen unless you are debt-levered. Over the last seven or eight years, the bulk of my investments have been in companies with zero or very limited debt. Small caps go through vicious cycles, and if a company is out of favor and heavily debt-levered, it can be a death knell. Without debt, there is a very slim chance a company will go bankrupt.

INVESTMENT APPROACH: BLENDING MACRO CYCLES WITH BOTTOM-UP PICKING

KSHITIZ

Q

Let's transition to the macro versus micro perspective. I personally spend a lot of time looking at macro variables like rates and liquidity. As a bottom-up stock picker, how much do macroeconomic factors influence your decisions?

KUNAL

A

It is a blend of both. I use a top-down assessment to identify where the next super cycle is happening. If you get into the right sector at the right time, you can ride it for three to five years and make outsized returns. Even if you pick a good company, it is difficult to make exceptional returns if the sector is not in a super cycle.

That being said, we don't spend an excessive amount of time worrying about macros. We believe that many small and midcap companies have the potential to grow earnings at 20% to 30%, and if they do, the market will reward them. Liquidity is extremely important—it lifts all boats—but our core work remains primarily bottom-up.

FOUR PILLARS OF INVESTMENT PHILOSOPHY

KSHITIZ

Q

The Indian market often values narratives highly, and young managers can easily get swept away. Could you outline your core investment philosophy and the influences that keep you grounded?

KUNAL

A

Over the last 15 years, I've had four distinct influences.

At my core, I am a growth investor heavily influenced by Phil Fisher's Common Stocks and Uncommon Profits. If a company is growing at 30% to 40%, I will drop everything to deep-dive into it because high-growth companies are a scarce resource.

Second, regarding what constitutes a good business, I follow Warren Buffett, Charlie Munger, and Bharat Shah's teachings. In the Indian context, I look for high return on capital (ROCE), strong cash flow generation, limited capex intensity, and expansion funded through internal accruals.

Third, Howard Marks deeply influenced my understanding of cycles. Meeting him at a CFA conference was one of the best days of my life. He taught me that everything is cyclical, and all assets are "AAA" at the right price.

Finally, Nassim Nicholas Taleb's teachings on risk and the barbell strategy completely shifted my portfolio construction. I made a lot of money between 2014 and 2017 but lost a substantial portion during the 2018–2019 correction. Taleb's approach of balancing a few risky, high-return names with safer names to cushion volatility is exactly how I manage my portfolio today.

THE ROLE OF QUANTITATIVE TOOLS IN A FUNDAMENTAL FRAMEWORK

KSHITIZ

Q

We are seeing a rapid convergence between quantitative and fundamental strategies. Are you deploying any quantitative approaches in your portfolio management or performance attribution?

KUNAL

A

Our core philosophy is fundamental. We use quant strategies primarily for screening and shortlisting stocks where we can see a nice upcycle in earnings. We also use technical analysis to spot sector turnarounds and refine our buying and selling points. On the portfolio side, quant is very helpful for diversification, risk assessment, and performance attribution. If we need to tweak the portfolio to lower risk or analyze which exposures gave us the best outcomes, quant helps immensely. But the pure-play investment decision is still fundamental.

THE CASE FOR PORTFOLIO MANAGEMENT SERVICES AND CONCENTRATION

KSHITIZ

Q

Managing a Portfolio Management Service (PMS) comes with tough client expectations, and the competitive landscape demands outperformance. Considering that an average active manager might struggle to beat the index, and noting the tax disadvantages of a PMS compared to a mutual fund, why do you believe the PMS structure is still a vital asset class?

KUNAL

A

There is always a need from investors, especially large family offices, for personalized, concentrated portfolios. It's true that, on average, mutual funds and PMSs may not beat the benchmark, but an "average" metric is flawed. On average, no cricketer has the skill set to play for India—only the best play.

If you look at certain PMS managers, they have consistently outperformed their categories over five to ten years. My personal philosophy has evolved to favor concentration; I cannot manage a 50-stock portfolio. The fund I manage holds about 20 stocks, with the bulk of the money in the top 10 to 15 names. Furthermore, a smaller AUM gives a PMS an advantage in agility and the potential to generate 20% to 25% returns over a longer timeframe. If we can consistently beat mutual fund returns, clients will continue to see the value despite the taxation differences.

TACKLING BEHAVIORAL BIASES AND THE ART OF SELLING

KSHITIZ

Q

Selling a stock when a thesis breaks is notoriously difficult due to behavioral biases. How do you manage your convictions and make those tough selling calls?

KUNAL

A

In the early part of my career, I invested heavily in marginal, high-debt small caps because I wanted to prove I was smart and right. I closely held my opinions and tried to propagate them. I eventually heard a quote by either Rakesh Jhunjhunwala or Ramdeo Agrawal that struck me: "Don't come to the market to prove that you're smart. Come to the market to make money. If you come to prove you're smart, the market will slap you back." And I had already been slapped.

Since then, I follow Jeff Bezos's philosophy: "Strong convictions loosely held." I build strong convictions based on current data, but I force myself to remain agile. I tell my team that no matter how strongly I feel about a stock, they must counter me and point out when a thesis doesn't make sense. As soon as I receive completely new information that breaks the thesis, I am willing to change my opinion and course-correct.

Don't come to market to prove that you're smart. Come to market to make money. Because if you come to market to prove that you're smart, then the market will slap you back.

NURTURING YOUNG TALENT: WHAT MAKES A GOOD ANALYST

KSHITIZ

Q

When you are looking to hire young talent for your team, what specific traits do you look for?

KUNAL

A

First and foremost, I look for open-mindedness, especially at the junior level. They need to be open to new thoughts, hard effort, and learning. Second, I look at how much they read—from financial books and behavioral finance literature to memos and newspapers.

But the absolutely non-negotiable factor for me is: do they invest their own money? Even if the salary is small, unless you invest your own money, your skin is not in the game. You need the drive to multiply your own capital; that is the only true way to learn.

> *Unless you invest your own money, your skin is not in the game... You should have that drive of putting your own money and trying to see if you can multiply it. That is the only true way to learn.*

AI IN ASSET MANAGEMENT: ACCELERATED INFORMATION VS. HUMAN CONVICTION

KSHITIZ

Q

With the rapid integration of AI tools, do you feel the informational edge in investing is disappearing? Will the industry remain human-driven, or are we moving toward becoming AI-native?

KUNAL

A

Broadly speaking, I feel AI is currently overhyped in the near term. Much like the internet in the early 2000s, it will eventually change the game, but it takes time. Mark Mobius recently said at a CFA conference that AI is simply "accelerated information."

The informational edge is certainly gone. Before, getting data was difficult; now, tools can present relevant information beautifully in 15 minutes. We have integrated it into our workflow; junior analysts use prompts to quickly generate 20-page summaries on new sectors, analyzing annual reports and transcripts. It is an incredible efficiency tool.

However, you cannot outsource thinking. The analytical edge, conviction, and ground-level scuttlebutt research are still strictly human domains. You only make money by holding non-consensus views with conviction, and AI, by definition, cannot give you a non-consensus view. While it shifts the nature of junior jobs, the need for analysts to process data and apply human experience remains.

THE VALUE OF THE CFA CHARTER AND COMMUNITY NETWORK

KSHITIZ

Q

Finally, let's talk about the value of the CFA charter and your involvement with the CFA Society. How has volunteering shaped your career and thinking?

KUNAL

A

I have volunteered for close to 13 years, and I have definitely received far more from the society than I could ever give. Professionally, the CFA curriculum tuned me perfectly for this career.

Volunteering was a deeply humbling experience. When I was a young charterholder in my 20s, I was given the opportunity to interact with industry legends. Having a one-hour chat with veterans like Navneet Munot or Sunil Singhania—people who under normal circumstances wouldn't easily grant a meeting—was invaluable. It also allowed me to build incredible camaraderie with my peers. We have supported each other through career ups and downs. Today, gaining access to a corporate management team, broker, or investor is often just a phone call away because of the powerful network built through the CFA Society.

THE CONCENTRATION INDIAN INVESTORS DID NOT CHOOSE

Navneeth Krishna Mohan, CFA, *RASC Volunteer*

Year-to-date April 2026, Korea is up 70% and India is down 8%. Most Indian HNI portfolios had full exposure to the latter and none to the former. That asymmetry is not bad luck. It is the predictable consequence of a construction that has never been pressed to answer one question: is the concentration in Indian equities compensated by the returns it generates, or has two decades of strong absolute performance simply made that question impolite to ask?

The Return Looks Good. The Kurtosis Does Not.

Over twenty years, Nifty 50 delivered 12.25% per annum in INR terms. The problem is not the return. It is what the client gave up to earn it. Nifty's annualised volatility of 20.76% exceeds every developed market index in this dataset. Its excess kurtosis of 3.71 dwarfs the S&P 500's 0.47, the highest of any index studied here. The maximum drawdown was -55.1%. A client portfolio cut in half is not a risk statistic. It is a relationship event.

The S&P 500 in INR-adjusted terms delivered 12.93% at 13.67% volatility and a Sharpe of 0.50. Gold delivered 16.07% at a Sharpe of 0.60 with a maximum drawdown of -25.3%. Same currency. Same period. Nifty's kurtosis of 3.71 against the S&P 500's 0.47 means clients are not running a noisier version of a normal return distribution. They are running a fundamentally more dangerous one, where extreme losses arrive more often and cut deeper than the volatility number suggests.

Index	Ann. Return	Ann. Vol	Sharpe	Max DD	Ex. Kurtosis
Nifty 50	12.25%	20.76%	0.36	(55.1%)	3.71
S&P 500 (INR-adj)	12.93%	13.67%	0.50	(40.8%)	0.47
MSCI Taiwan (INR)	16.92%	20.94%	0.55	(47.8%)	1.16
Gold (INR-adj)	16.07%	16.82%	0.60	(25.3%)	0.28
MSCI Asia ex-Jpn	12.65%	17.09%	0.41	(50.1%)	1.66
Global Agg Bond	5.98%	7.31%	(0.04)	(15.0%)	0.48

All returns INR-adjusted. Sharpe uses GIND3M (3-month yield) time-varying risk-free rate. Source: Bloomberg. Analysis: Author.

The Rupee Is Not a Risk to Hedge. It Is a Tailwind Being Forfeited.

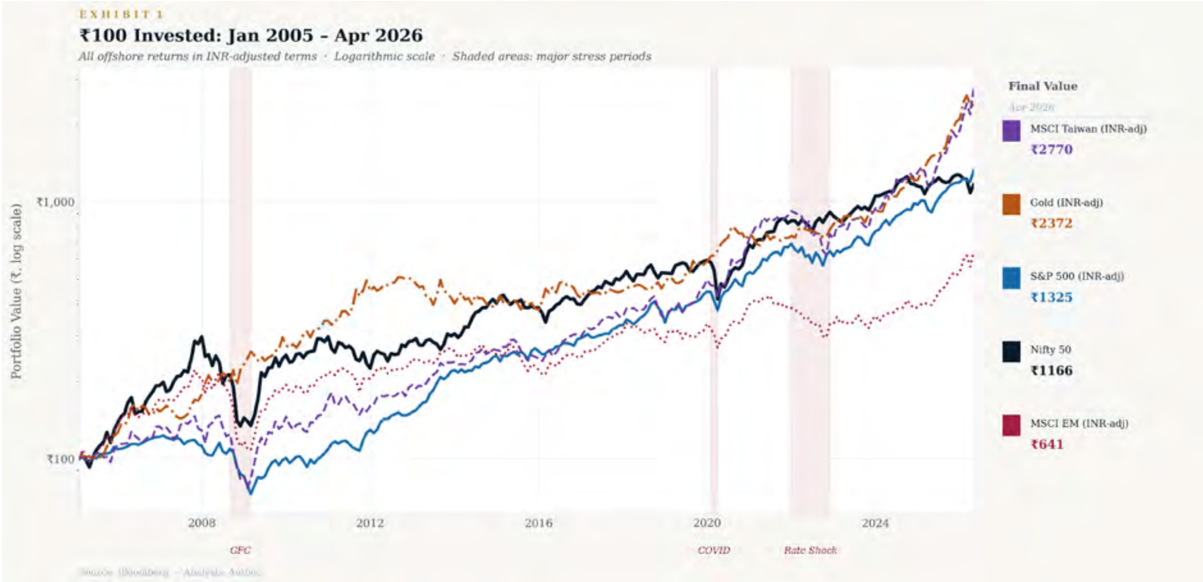
The case for offshore allocation is usually framed as a diversification argument. That framing understates it. The rupee has depreciated at 3.72% per annum since January 2005, reflecting India's persistent inflation differential with the United States. Every dollar-denominated asset earns this tailwind on top of local market return, automatically, every year. The S&P 500's 8.88% USD return became 12.93% in INR. Gold's 11.91% became 16.07%. The client who stayed 100% in Nifty forfeited this across every year in the dataset.

In 80 of 255 months, nearly one in three, Nifty fell and the rupee depreciated simultaneously. In those months, Nifty averaged -4.41%. Gold averaged +2.14% and was positive 62.5% of the time. Offshore USD assets were not merely uncorrelated. They were the only natural buffer available.

Asset	Avg Monthly Return	% Months Positive
Nifty 50	-4.41%	-
Gold (INR-adj)	+2.14%	62.5%
Global Agg Bond	+1.63%	81.2%
S&P 500 (INR-adj)	(0.05%)	51.2%
MSCI EM (INR)	(2.00%)	37.5%

Double-stress months: Nifty down and INR depreciating simultaneously. 80 of 255 months (31.4%). Source: Bloomberg. Analysis: Author.

EXHIBIT 1



INR 100 invested January 2005. All offshore returns INR-adjusted, log scale. Shaded areas: GFC, COVID, Rate Shock. Source: Bloomberg. Analysis: Author.

Correlation Rises When It Hurts and Falls When It Does Not Matter?

The standard objection is that markets have become more correlated and international exposure merely replicates Nifty's drawdown at higher cost. The objection is directionally correct and analytically incomplete. Using DCC-GARCH, the average dynamic correlation between Nifty and the S&P 500 is 0.28 over twenty years. In Nifty's worst 20% of months, that figure rises to 0.43. In its best 20%, it falls to 0.13. Though the diversification benefit compresses when most needed, ***it does not disappear.***

Index	Full Period	Worst 20% Nifty Months	Best 20% Nifty Months	Asymmetry	Ex. Kurtosis
S&P 500	0.350	0.425	0.132	+0.293	3.71
MSCI Korea	0.464	0.380	0.063	+0.317	0.47
MSCI EM	0.640	0.653	0.417	+0.236	1.16
MSCI China	0.393	0.482	0.376	+0.107	0.28
Gold	-0.064	+0.127	+0.037	+0.090	1.66

Exceedance correlations vs Nifty 50. Full-period Pearson and regime-conditional estimates. Source: Bloomberg. Analysis: Author.

The distinction matters most in India-specific stress events. During the 2013 taper tantrum, MSCI EM and MSCI China were negatively correlated with Nifty. During the 2022 rate shock, China's dynamic correlation turned negative again. Gold reinforces the point: its lower tail dependence with Nifty, measured using a Clayton copula, is zero.

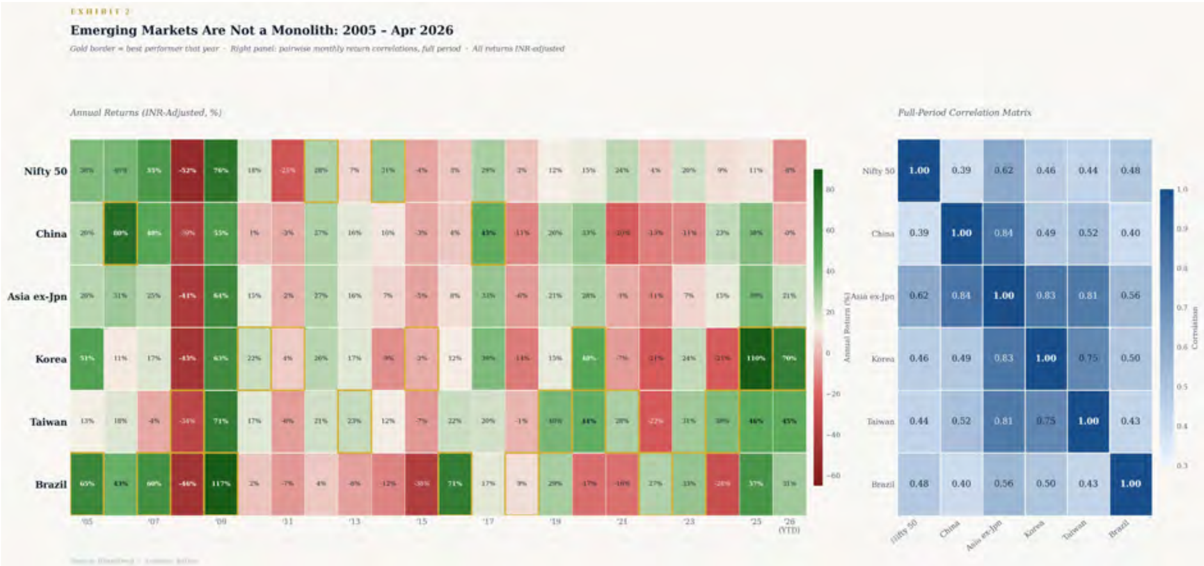
EM Dispersion Is Not Noise. It Is a Structural Feature.

The instinctive objection to EM diversification is that it adds more of the same. The year-by-year record does not support it. In 2021, India returned +24% while China lost -20%. In 2022, Brazil gained +27% while Korea and Taiwan each fell more than 20%.

In 2025, Korea returned +110% while India returned +10%. India ranked last among EM peers in 6 of the past 22 years and first in just 2. The reason is partly structural- Nifty is 35% financials and IT services. Korea and Taiwan are semiconductor hardware. Brazil is materials and energy. They are all genuinely different economic engines with very different return drivers.

The India-China correlation over the full period is just 0.39, the lowest pairing in the EM universe. This reflects not just different market structures but an accelerating geopolitical divergence. The result is that the largest EM economies have become genuinely differentiated investment theses. As of April 2026, the dynamic correlation between Nifty and MSCI China has fallen to 0.19, which is the lowest reading in twenty years.

EXHIBIT 2



Annual returns (INR-adjusted, %). Gold border: best performer that year. Right panel: pairwise correlations, full period. Source: Bloomberg. Analysis: Author.

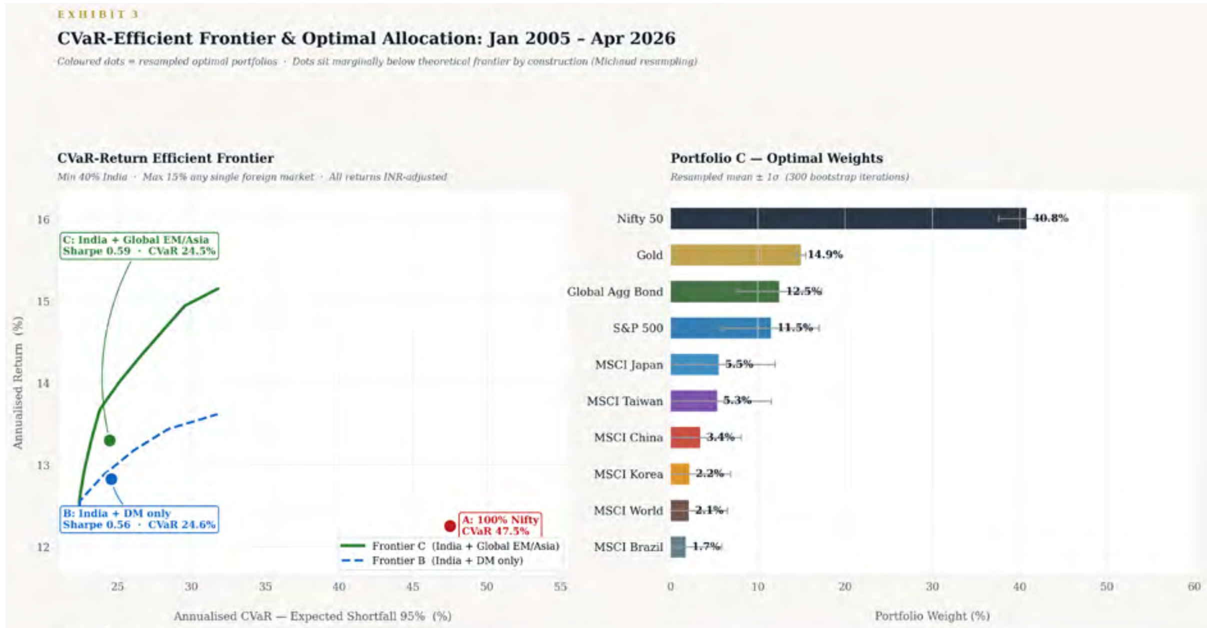
What the Optimiser Builds When It Is Allowed To

Three portfolios are compared using CVaR at the 95th percentile and Michaud resampling across 300 bootstrap iterations. Portfolio A is 100% Nifty. Portfolio B adds developed markets with a minimum 40% India floor. Portfolio C adds EM and Asia under the same floor, no single foreign market exceeding 15%. Portfolio C delivers 13.30% annualised return while CVaR falls from 47.5% to 24.5% and maximum drawdown contracts from -55.1% to -29.6%. Sharpe rises from 0.36 to 0.59. A near-halving of tail risk for a marginally higher return.

The optimal weights are approximately 41% Nifty, 15% Gold, 12% Global Aggregate Bond, 11% S&P 500, and 21% across Japan, Taiwan, China, Korea, and Brazil. Two things about this output are worth noting beyond the weights themselves. First, Gold receives the highest allocation of any single foreign asset and across all 300 bootstrap iterations its weight barely moves. The optimiser consistently demands it regardless of which return sample it sees.

This is driven by its unique property of zero tail dependence with Indian equities and its positive average return of +2.14% in precisely the months when Nifty falls and the rupee weakens simultaneously. Second, the inclusion of EM and Asian markets in Portfolio C measurably improves on Portfolio B i.e. India with developed markets only. The EM allocation earns its place.

EXHIBIT 3



Portfolio Comparison

Portfolio	Ann. Return	Volatility	CVaR (95%)	Max Drawdown	Sharpe
A: 100% Nifty	12.3%	20.7%	47.5%	-55.1%	0.36
B: India + DM	12.8%	11.4%	24.6%	-30.6%	0.56
C: India + Global	13.3%	11.5%	24.5%	-29.6%	0.59

CVaR-efficient frontier and optimal allocation. Michaud resampling, 300 bootstrap iterations. Min 40% India, max 15% any single foreign market. All returns INR-adjusted

Source: Bloomberg. Analysis: Author.

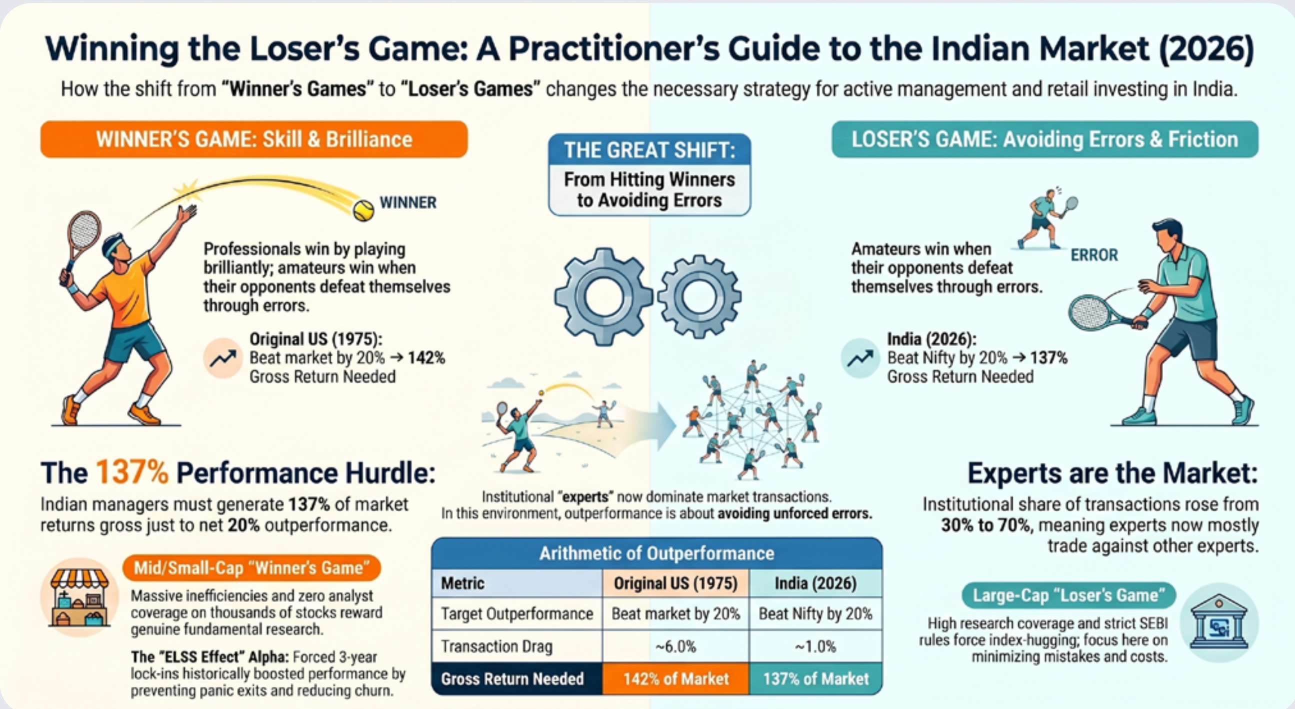
The LRS window, GIFT City feeders, and domestic FOFs with equity taxation treatment mean the barrier to executing this construction is now lower than the barrier to explaining why it has not been done.

No fixed income manager would run a portfolio with 100% single-issuer exposure and defend it by pointing to the issuer's historical returns. The same discipline, applied to country risk in equities, is what this analysis describes. Before the next client meeting, three questions are worth having clear answers to.

- Does this portfolio allow the client to benefit from the structural INR depreciation tailwind, or does it systematically forfeit it?
- Is the client compensated for the kurtosis risk they are running, or exposed to crash distributions that standard deviation does not capture?
- Can this construction survive a double-stress month, when Indian equities fall and the rupee depreciates simultaneously, with any natural buffer in place?

THE LOSER'S GAME IN INDIA 2026: WINNING BY NOT LOSING

Practitioner Insights from the CFA Society India Research Reading Initiative



In 1975, Charles D. Ellis dropped a bombshell on the investment management industry with a seminal paper titled "The Loser's Game".

Borrowing an insight from Dr. Simon Ramo's statistical analysis of tennis, Ellis observed that professional and amateur tennis are essentially two entirely different sports. Professionals play a Winner's Game, securing victory through spectacular, unreturnable shots. Amateurs, however, play a Loser's Game; they defeat themselves through unforced errors, hitting the ball into the net or out of bounds. In amateur tennis, the victor doesn't necessarily hit brilliant shots; they simply keep the ball in play and wait for the opponent to defeat themselves.

Fast forward fifty years to the inaugural research paper discussion webinar, the pressing question for financial professionals is whether the booming Indian capital market of 2026 has become the ultimate Loser's Game.

The Brutal Math of the Modern Market

Ellis argued that as institutional trading in the US surged from 30% to 70% of all market transactions in the 1960s and 70s, the environment fundamentally changed. Experts were no longer taking money from uninformed amateurs; they were battling other experts. Consequently, market liquidity transformed from a lucrative advantage into a costly liability.

The math of this transformation is unforgiving. According to calculations updated for 2026 and discussed by practitioners, to outsmart the market and net a 20% outperformance over the Nifty 50, an Indian active large-cap manager today must generate a staggering 137% of the index's gross returns. Just overcoming the friction of transaction costs, SEBI-capped fees, and portfolio churn is a monumental hurdle.

India's Split Personality: Large-Caps vs. The F&O Casino

So, has India become a Loser's Game? The consensus among practitioners is that the Indian market is currently displaying a split personality.

In the heavily researched large-cap space, it is undoubtedly a Loser's Game. Strict SEBI guidelines restricting funds to a tight universe of the top 100 stocks force index-hugging behavior, making alpha generation exceedingly difficult. However, venture beyond the top 200 stocks, and analyst coverage drops off a cliff. This vast, under-researched mid and small-cap arena—featuring thousands of companies—remains a genuine Winner's Game where deep, fundamental research still pays off.

Meanwhile, the retail derivatives market presents a much darker reality. Driven by gamified trading apps featuring confetti and push notifications, the retail Futures and Options (F&O) space in India is the Loser's Game in its most extreme form. Recent SEBI data reveals that 93% of retail F&O traders lost money between FY22 and FY24, with net losses surging to Rs 1.05 trillion in FY25. These retail investors act as the permanent amateurs, haemorrhaging points to the algorithms of institutional and proprietary traders who silently reap the rewards of their unforced errors.

The Passive Illusion

If beating the market is so statistically improbable, shouldn't everyone just buy a passive index fund? Not exactly. While Ellis conceded that passive investing is a viable option for individuals, unchecked passive growth at an institutional scale creates deep systemic risks.

As practitioners point out, passive funds rely entirely on active managers to do the hard work of discovering fair prices. If passive investing dominates, markets begin to move blindly on macroeconomic flows and index weights rather than underlying business fundamentals, leading to dangerous capital misallocation. Furthermore, passive funds holding hundreds of stocks often resort to automated "robo-voting," creating a corporate governance vacuum where company boards face far less scrutiny.

A Playbook for 2026: How to Win

To navigate this complex landscape, investment professionals must radically rethink their strategies and adopt the mindset of a defensive tennis player.

First, they must deliberately reduce churn. Every unnecessary trade is a self-inflicted wound. Historically, India's Equity Linked Savings Scheme (ELSS) funds showed massive outperformance—beating benchmarks 55% of the time—precisely because the mandatory three-year tax lock-in prevented panic selling and forced lower portfolio churn. Patience is literal alpha.

Second, managers must flip their research focus. While the industry obsesses over finding the next big stock to buy, true defense in a Loser's Game requires spending the bulk of your time on the sell decision. Weeding out portfolio errors before they compound is the highest form of risk management.

Technology also offers a vital lifeline. While Artificial Intelligence may not reliably pick winning stocks, deploying Natural Language Processing (NLP) to parse thousands of regional earnings transcripts overnight gives analysts an unparalleled informational edge in India's data-poor mid and small-cap sectors. AI should be used to increase research throughput, effectively reducing the cost of making good decisions.

Finally, for wealth advisors, the real battle is behavioral. Clients are naturally drawn to the recent performance of the latest hot fund—a classic Winner's Game mentality. Reframing client conversations around "goal-based investing" decouples success from short-term benchmark beating. When the market inevitably tests their patience, clients anchored to specific life goals are far less likely to abandon their long-term compounding strategies.

The Road Ahead

The dialogue initiated by the CFA Society India is just the beginning of a much-needed evolution in how we view the local markets. By continually revisiting seminal theories like Ellis's, practitioners are uncovering a wealth of open questions that warrant deeper research. Future collaborations with academic institutions could explore how foreign portfolio flows dictate the spread between active and passive performance, or whether Ellis's theories break down entirely in the less transparent world of private equity and venture capital.

In the end, whether you are stepping onto a tennis court in 1975 or navigating Dalal Street in 2026, the ultimate lesson remains profound in its simplicity: the surest way to win the game is to stop trying so hard to hit the spectacular shot, and simply focus on making fewer mistakes.

Join the Conversation

Our profession thrives on rigorous debate and continuous learning. By critically evaluating seminal research through the lens of the modern Indian market, we equip ourselves to build better portfolios and offer wiser counsel to our clients.

We invite all CFA Society India members to join our next monthly reading session. Bring your practitioner insights, and let's continue to elevate the standard of research in our community.

ABOUT THE EDITOR

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Kshitiz Jain is an accomplished treasury and investment leader with over 14 years of experience across banking, corporate treasury, and wealth management. He currently serves as Vice President at NIIF Infrastructure Finance Limited.

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As a dedicated volunteer for CFA Society India, Kshitiz serves as Co-Chair of the Research and Advocacy Committee, where he regularly engages with regulators for policy advocacy. He is also leading some of the new research content initiatives of the Research and Advocacy committee. He is also the Deputy Director of the IIM Bangalore Alumni Association (Mumbai Chapter).

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